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Staff Country Reports

**Central African Republic: Poverty Reduction Strategy Paper—
First Annual Progress Report—Joint Staff Advisory Note**

The attached Joint Staff Advisory Note (JSAN) on the Poverty Reduction Strategy Paper First Annual Progress Report for Central African Republic, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) First Annual Progress Report to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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CENTRAL AFRICAN REPUBLIC

**Joint Staff Advisory Note on the Poverty Reduction Strategy Paper:
Annual Progress Report**

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

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I. OVERVIEW

1. **This Joint Staff Advisory Note (JSAN) reviews the first annual progress report (APR) on implementation of the Poverty Reduction Strategy (PRS) of the Central African Republic (C.A.R.),** presented to the Boards of the IMF on April 29, 2008, and IDA on May 27, 2008. The APR (for the period September 2007–December 2008) describes the results of implementation and monitoring of the PRS. It incorporates inputs from representatives of civil society and the donor community.

2. **The Government conducted a mid-year assessment of PRS implementation in August 2008, sharing a draft APR with stakeholders in December 2008.** Following extensive internal discussion and consultation with donors, the APR was formally shared with staffs in March 2009. Staffs note that the APR would have been more useful if it had been released before the beginning of the budget cycle to inform policies and spending priorities of the budget for the next year. The C.A.R.'s PRS has four strategic pillars: (i) restore security, consolidate peace, and prevent conflict; (ii) promote good governance and the rule of law; (iii) rebuild and diversify the economy; and (iv) develop human capital. The APR confirms that these pillars remain valid and that the poverty reduction strategy paper (PRSP) is a fundamental point of reference for the dialogue between the government, civil society, and donors.

3. **The APR shows that although the financing needs exceed by far the overall financing commitment pledged by donors in Brussels in November 2007,¹ donor funding was responsive to PRS priorities in 2008.** As of November 15, 2008, US\$755 million has been committed to finance PRS activities for 2008–10, of which US\$408 million was disbursed in 2008.

4. **The APR gives information on progress toward restoring peace, access to basic services and governance, and sector performance.** It shows that overall, the C.A.R. has made good progress in implementing its PRS in 2008, and the direction of its policies and programs seems appropriate. The authorities have started addressing the most critical binding constraints to poverty reduction and growth, in key areas including political reconciliation, infrastructure, the social sectors as well as governance. However, the year 2008 was also marked by a slowdown in economic growth, to 2.4 percent in 2008 from 3.7 percent in 2007, as a consequence of the deteriorating international economic environment coupled with domestic shocks.² Given the recent economic development and the overall PRSP financing gap, there is a need to revise the macroeconomic framework for the PRS. Another missing element in the APR is an updated poverty profile, mostly because there was a delay in producing and analyzing the household survey. Equally important is the need for updating the status of the Millennium Development Goals, which is expected to be included in the next APR.

5. **This JSAN on the first APR offers staff advice on priorities for advancing PRS implementation.** Section II highlights progress to date and suggestions for making further progress. The concluding section summarizes staffs' recommendations in key areas to strengthen the PRS implementation and suggests points for Board discussion.

II. PROGRESS IN IMPLEMENTING THE POVERTY REDUCTION STRATEGY AND THE WAY FORWARD FOR SUCCESS

A. Macroeconomic Performance

6. **The acceleration of growth envisaged in the PRSP did not materialize due to a number of shocks.** As the APR demonstrates, 2008 was a particularly difficult year for C.A.R.: social tensions and serious power shortages domestically and global food and fuel price hikes and financial shocks together pummeled the economy. Consequently, growth slowed significantly; inflation accelerated to almost 10 percent; and the external current account balance deteriorated.

¹ The financing needs for the PRSP were estimated at US\$1.1 billion in a pledging conference held in Brussels in November 2007.

² These figures reflected the most recent estimates for real GDP growth rates, updated since the release of the APR.

7. **Despite the difficult economic conditions, C.A.R.'s fiscal performance was broadly satisfactory.** Domestic revenues increased enough to realize a continuous improvement in the revenue-to-GDP ratio. Spending was carefully managed in general, poverty-related spending was well-executed and a significant amount of domestic arrears was cleared. However, there is scope for controlling the use of commercial bank credit and improving the timeliness of external debt service payments. Debt relief under the enhanced HIPC Initiative, granted in the form of interim relief in the period between decision point and completion point, has been beneficial to smooth execution of the budget.

8. **Structural reforms in the first year of PRS implementation have helped make the government budget more resilient to negative shocks.** The improvement in domestic revenues is attributable to a number of improvements in tax and customs administration, including measures taken by the government following the audit of *Guichet Unique* in Douala, as recommended in the previous JSAN. The use of an automatic adjustment mechanism for petroleum product prices has recently allowed the government to insulate its budget from fluctuations in international oil prices and secure resources for priority spending. Moreover, after several adjustments of retail prices based on the mechanism, the government is now generating significant revenues from petroleum consumption and is able to partially offset the revenue losses from external shocks to primary production sectors. The staffs encourage the authorities to continue applying the automatic adjustment mechanism every quarter and avoiding deviations.

9. **Given continued determined efforts by the authorities, C.A.R. should be able to recover and accelerate growth.** The APR does not provide an updated assessment of growth prospects; it is important that future APRs include an up-to-date macroeconomic framework based on the most current assessment. It should be recognized that its growth prospects depend on such factors as security, weather, and global economic conditions. The authorities are committed to keeping the economy stable and strengthening their structural reform efforts. Keeping the fiscal stance prudent to ensure debt sustainability and containing inflation are vital for sustainable acceleration of growth. Donor support is critical for addressing bottlenecks in the social and economic sectors and infrastructure.

B. Restore Security, Consolidate Peace, and Prevent Conflict

10. **The APR describes the efforts the government has made to restore peace and security.** Staffs agree that these have been significant. Efforts toward political stability culminated in the Inclusive Political Dialogue in which all major political actors (social, political, and rebel groups) participated in December 2008, and the creation of coalition government including members from the civil society and the opposition as well as the rebel groups. Such initiatives followed on the Libreville Agreement of June 2008, and an Amnesty Law was promulgated in October 2008 covering crimes committed since 2003 by political or military leaders (except for war crimes and crimes against humanity that are under the jurisdiction of the International Criminal Court). Restoring peace throughout the country

remains a challenge, particularly in the northern areas. However, it is expected that the government will be able to move toward another round of elections in 2010 with the support of the international community—especially the three peacekeeping missions (MINURCAT, EUFOR and MICOPAX) and the UN Peace Building Office.³

11. **In parallel with the political process the government has taken steps to consolidate security and the rule of law.** Under the supervision of an ad hoc government and International Partner Committee, some of the recommendations from the Security Sector Reform (SSR) national conference of April 2008 have been implemented: the capacity of military and security personnel and civilian staff in the Ministries of Defense, Interior, and Justice has been built up, prisons and public offices rehabilitated, and illegal traffic barriers dismantled. Disarmament and demobilization efforts have started to produce positive results, including integration of 4,590 ex-combatants and destruction of small arms. Still, much remains to be done.

12. **The priority for the government in the next few months is rapid action on the disarmament, demobilization, and reinsertion (DDR) program** to ensure political stability and sustain peace. The government and donors are discussing design and implementation of the program. UNDP is leading the discussion. Although a total of US\$20 million has been identified, the total costing is not yet completed. The recommendations of the SSR need to be implemented, in particular revision of the documents governing C.A.R.'s security sector to improve public financial management and budgetary processes and minimize leakages in C.A.R.'s security agencies.

C. Promote Good Governance and the Rule of Law

13. Corruption has been identified by the population as the first cause of poverty, as spelled out in the Poverty Analysis (2006). Staffs welcome the government's determination to reinforce the legal framework for the fight against corruption. Staffs note the creation of an Anti-Corruption Committee (ACC) in March 2008, which is comprised by representatives from the government, anti-corruption bodies, audit and control agencies, civil society, and private business. The development of an Anti-Corruption Strategy is currently being finalized. Staffs commend the authorities for having enforced the official dispositions requiring members of the C.A.R. government and high-ranking officials managing public resources, as required by respectively the Constitution and a decree issued in March 2008. Staffs support the government's action plan to address fraud and corruption in mining, forestry, and the treasury under the coordination of the ACC and encourage the government to gradually expand such a program to other critical areas. Already, this work has led to the uncovering of corruption cases in the treasury and the tax directorate that involved more than

³ MINUCART: Mission in the Central African Republic and Chad; EUFOR: European Union Force; MICOPAX: Mission for the Consolidation of Peace in Central Africa.

50 agents. Staffs consider it important that the authorities continue to improve the anti-corruption laws through a gap analysis to bring C.A.R. laws in line with the UN convention. In particular, the declaration of assets needs to reflect international practice and be done annually—the frequency is not addressed by the Constitution or any other law – and a Law to protect whistleblowers needs to be adopted. Staffs also encourage the government to finalize its Anti-Corruption Strategy and the related implementation plan. Due to several visible initiatives, C.A.R.’s Transparency International Index has improved from 162 of 180 countries in 2007 to 151 of 180 countries in 2008.

14. The authorities have made commendable progress in procurement and public financial management:

- *In procurement*, staffs commend the authorities for the operationalization of the new Procurement Code promulgated in June 2008. The challenge of the government now is to implement the National Action Plan validated in December 2008, including capacity building for procurement units in key ministries, and the procurement regulation and oversight unit. Staffs also encourage the government to ensure timely payment of suppliers in order to attract the private sector into public biddings and bring more competition.
- *In fiscal management*, the APR observes that the government has made significant progress in building its capacity to mobilize revenue and improving the integrity of public financial management. Staffs note progress toward aligning the budget with PRS priorities; adoption of a new chart of government accounts in mid-January 2009; preparation of a medium-term expenditure framework (MTEF) for health, education, infrastructure, and agriculture for the 2010 budget; and development of medium-term sectoral programs using the indicators for the PRSP monitoring and evaluation system. However, the process needs to be strengthened because budget allocations remain uneven.⁴

15. **The progress in public financial management (PFM) is commendable.** The autonomy of the financial control directorate has been restored and cash management is being supervised by a liquidity committee at the technical level and a treasury committee headed by the President at the strategic level to better align expenditures with available resources. The closing of commercial bank accounts that are not donor mandated is also welcome, as is the significant effort toward consolidating a treasury single account (TSA).

⁴ The share of key sectors in the budget (education, health, social welfare, infrastructures, and rural development) increased from 34 percent in 2007 to 38 percent in 2008, with a notable increase in the allocation to infrastructure, health, and education. However, the allocations for rural development, the fight against diseases and epidemics, and potable water in small towns and rural areas fell in 2008. Government is lacking comprehensive budget data that would include external donor support. It is therefore not clear to what extent declining allocations in the official budget reflected expected donor support in these areas.

The accounting and reporting systems have been improved, resulting in publication of quarterly budget execution reports. These first reports ever for C.A.R. use comprehensive budget classifications for the 2008 budget, and the budget directorate has adopted new accounting classifications and a computerized financial management system to record expenditures (GESCO). The strengthening of basic functional processes, the regulatory framework, and the organizational structures responsible for capturing data is welcome.

16. To consolidate and deepen the procurement and PFM reform agenda outlined in the APR, key actions for the next 12 months are to:

- implement the actions identified in the procurement National Action Plan;
- build capacity in priority ministries (e.g., education, health, infrastructure) to prepare and execute the budget, and roll out a Medium Term Expenditure Framework;
- ensure coherence between budget and accounting nomenclatures and integrate all the stages of expenditures from commitment to payment into the computerized financial management system;
- complete the 2008 government accounts and execution law for presentation to the Courts of Accounts and parliament in the second semester of 2009; and
- implement a treasury single account to improve transparency of government financial operations.

Staffs recommend that a Public Finance Management National Action Plan be prepared to ensure that donors' programs are aligned with government priorities.

17. The need for further actions in strengthening public debt management should be highlighted. The APR should include a full discussion of debt management issues. In addition to the installation of a computerized debt management system, the APR could usefully describe developments in this area such as the establishment by the debt department of a comprehensive debt database, covering both domestic and external debt data, and the publication of a statistical debt bulletin. Going forward, the APR could point to the fact that the National Committee for Public Debt, created by a presidential decree, should play an active role in designing and implementing the government debt strategy with the technical support of the debt department.

D. Rebuild and Diversify the Economy

18. Growth is central to achievement of C.A.R.'s ambitious PRS. The APR rightly discusses the key growth sectors: forestry, mining and mineral exploitation, agriculture and tourism. It makes it clear that progress has been made in key areas, in particular infrastructure and governance in natural resources, which is critical for growth and poverty reduction.

19. The government has made significant progress in improving the legal framework for natural resources; its commitment to good governance in these sectors is commendable.

- In mining, recent efforts in improving governance are expected to strengthen C.A.R.'s attractiveness. Key features of the recent development include the selection of C.A.R. as an official EITI member, the suspension of issuance of new mining licenses until the adoption of the revised mining code and the adoption of standard investment agreement in April 2009. While these initiatives are good, staffs agree, as spelled out in the APR, that more work is needed to build capacity at the Ministry of Mines to enforce the laws; ensure more efficient administrative, geological, and engineering services; and establish a robust geological database. Lastly, staffs encourage the government to address tracking of diamond exports which could yield significant increase in revenues to the government.
- In forestry, the adoption of the new forestry code in October 2008 and the implementing texts in April 2009 give C.A.R. a modern legal framework which is expected to enhance transparency in the utilization of C.A.R.'s natural resources. Staffs encourage the government to sustain reform toward transparent management of forest taxes, in particular ensuring continued transfer of resources to communities to sustain construction or rehabilitation of basic infrastructure. Additional priorities for the coming months consist of (i) moving forward the government's Africa Forest Law Enforcement and Governance (AFLEG) action plan in order to reinforce the laws that combat threats to forests from illegal logging and trade and wildlife poaching and to ensure access to the EU market in the future; (ii) and seeking bids for the remaining concessions under the new code.

20. The APR correctly notes progress in electricity and water supply and sanitation, but these areas still constitute huge challenges, especially outside the capital. Yet, currently, only a small portion of the population in C.A.R. is served by the national public utilities for water (SODECA) and electricity (ENERCA). Even though electricity supply appears to have stabilized in the aftermath of the power shortages throughout 2008, it is not nearly sufficient to satisfy the existing demand. The priority lies in a rapid rehabilitation of the power stations serving Bangui and the implementation of the planned loss-reduction programs, including the introduction of pre-payment metering. The electricity sector needs significant additional investment in order to increase coverage. There is also a need for stepped up efforts to further improve access to clean water and sanitation, which in turn will support improvement to health indicators. Recent efforts include the construction of infrastructure to give access to water supply to 170,000 people, 1,670 latrines, and the distribution of 15,000 hygiene kits to households. The APR appropriately emphasizes the financial and structural problems facing public utilities. Until arrears are paid to utilities, bill collection is improved, and the institutional set up is addressed, service delivery cannot be sustained. Full provision of utility consumption in the 2009 budget is praiseworthy: because

government institutions are by far the largest clients of ENERCA and SODECA, this will gradually improve the financial position of the companies, thereby helping provide resources for much needed maintenance, repairs and investment.

21. **The APR highlights the government’s commitment to the road program but does not discuss other transport infrastructure.** It is commendable that the government is providing a stable source of funding for road maintenance. Although the targets for 2008 have not been achieved, the APR notes that 1,500 km of roads were rehabilitated, which has reduced the share of unrehabilitated roads from 42 percent to 17 percent. In addition, 206 km of rural roads were rehabilitated and 52 km constructed, which has increased the share of rural roads in good condition from 5 percent to 12 percent—above the 2008 target. Staffs note that the APR does not discuss progress on urban road rehabilitation and urban drainage in Bangui. Among the key priority activities for the coming year feature completing the rehabilitation of the corridors linking Bangui to the Port of Douala. Staffs also encourage the government to finalize the measures necessary to bring national regulation of the sector into compliance with regional and international regulations and the Transport Roundtable in order to mobilize financing for transport programs.

22. **While staffs encourage the government to sustain efforts in tackling growth-enhancing constraints as described above, greater attention is now needed to ensure support to income generating activities,** in particular in agriculture, given the high percentage of poor earning their livings from this sector. So far, achievements in this area span payment of arrears to cotton farmers, the provision of a range of services (agricultural inputs and extension services) and machinery to farming families in the “Development Poles” targeted areas; and initiation of livestock restocking and pilot programs. Staffs note that significant improvement in the agricultural sector will also require revamping the shrinking cotton and coffee sectors, and diversifying farmers’ activities, which are not discussed in the APR. As noted in the document, the government has drafted a comprehensive medium-term priority action plan following the national workshop (*Etats Generaux*) of agriculture, the implementation of which is expected to take effect with the launching of the “Development Pole” project and other donor-supported programs.

23. **Some progress has been made in improving the business environment but more is needed.** C.A.R. ranked last in the latest *Doing Business* report, but the authorities are determined to address the problems. They have effectively facilitated business creation with the one-stop window (*Guichet Unique*) and shortened the time (from 4 months to 15 days) and number of procedures required. They have also translated recommendations of the Diagnostic Trade Integrated Studies (DTIS) into concrete policies and projects including the reorganization of the customs department and the ongoing revision of the commercial and national investment charts; some important recommendations have not yet been carried out, particularly strategies to revamp agriculture including the coffee and cotton sectors. The APR does not discuss support to investment climate reforms and the local small- and medium-sized enterprise sector through IFC-supported programs. Staffs encourage the authorities to

start implementing the action plans finalized with partners, especially those for IFC-supported programs and those identified during the private sector sectoral round table in February 2009 with support from multilateral and bilateral partners.

E. Develop Human Capital

24. **The APR reports some progress on the government human capacity program but did not make good use of the data available.** The APR could have used the recently updated statistical book for education to assess other efficiency indicators. Among the recent achievements feature the rehabilitation of few schools, the hiring of 750 new contractual teachers, and the distribution of 4,500 manuals. Coupled with administrative and pedagogical measures, including training of teachers and special programs for students that need support, this reduced the repetition rate from 30 percent to 26 percent in some academic inspectorates in non-conflict areas—a fact not mentioned in the APR. In line with donors' endorsement of the National Education for All (EFA) plan which lays out the priority for the coming years, staffs agree with the education strategy outlined in the APR and with actions planned to meet the PRS goals. C.A.R. will receive US\$37.8 million from the FTI Catalytic funds to support the EFA plan, as approved by the EFA/FTI Committee in December 2008. Among other things, to directly facilitate changes at the school level these funds will support measures to hire new teachers, enhance the quality of education through teacher training and education materials, increase the management capacity and internal efficiency of the education system, and build schools.

25. **Steady progress has been made in health and HIV/AIDS areas, in particular in preventive efforts to reduce child mortality and HIV-AIDS.** As noted in the APR, DPT3 immunization rates were kept above 80 percent until September 2008.⁵ Thanks to a multisectoral approach including the Ministry of Health and NGOs, for the first year of PRS implementation, neonatal surveillance sites generally reported stable HIV prevalence rates, although rates among young pregnant women (ages 25–29) are still high (around 10 percent) at some sites;⁶ the target for HIV-positive mothers receiving prophylactic treatment has been achieved and the target for HIV-infected patients receiving ARV therapy has been exceeded. Programs to combat malaria by distributing treated mosquito nets to children under five and pregnant women throughout the country are in place and anti-tuberculosis drugs are now available free. Staffs note that the APR does not discuss outcomes in the latter areas due to lack of data. The next priorities are to (i) put into operation a monitoring and evaluation action plan for the health sector to inform activities for the coming years and measure the

⁵ The immunization rate declined as of September 2008 but the APR provides justification for this trend, which is related to the WHO recommendation to administer a different vaccine.

⁶ Significant progress has been made in rehabilitating the infrastructure needed to roll out HIV/AIDS including mother-to-child-transmission-prevention centers, counseling, testing, and treatment, which was complemented by training for health agents and distribution of condoms through a social marketing program involving NGOs.

progress made; (ii) and prepare the MTEF for the health sector, as recommended by the PRSP JSAN to sustain the multi-sector national health program including the National Plan for the Development of Sanitation 2006–15, the National Strategic Plan to Reduce Malaria, the Comprehensive and Extended Multi-Annual Vaccination Program 2007–11, and the updated National Strategy against HIV/AIDS (2006–10).⁷

III. FRAMEWORK FOR PRSP IMPLEMENTATION, MONITORING, AND EVALUATION

26. **Staffs encourage the government to continue reinforcing the monitoring and evaluation framework.** As recommended in the previous JSAN, the authorities have identified measurable result and outcome indicators for all sectors of the PRSP (Annexes 1 and 2). The APR documents (i) progress in simplifying the institutional structure for monitoring and evaluation, including a reporting structure that applies to key sectors at all levels of government, and (ii) the participatory nature of PRSP monitoring, including thematic and regional workshops. However, it candidly states that the monitoring structures demonstrated a number of weaknesses when the PRS was being monitored. For instance, the synthesized analysis of the National Technical Committee (NTC) in charge of producing the APR, has been affected by lack of efficient coordination with the National Sectoral Committees (NSC) in charge of coordinating the regional Committees and transmitting aggregated data to the NTC, as evidenced by missing data for 2008 in Annexes 1 and 2 of the APR. In addition, inputs feeding into the elements required to carry out a proper evaluation of the PRSP and including a series of surveys (household, agricultural survey, employment, health and education) have not yet been completed. Therefore, some core indicators to report on still have to be finalized.

27. **Staffs urge government to enhance its effort to monitor outcomes and impacts of PRS programs.** Operationalization of the monitoring framework needs further strengthening relevant institutions and entities, in particular the coordination between the NTC and NSC. Similarly, the implementation of the recently adopted training programs for capacity building among PRS committees, and the strengthening of the statistical institute to analyze and interpret data feature among the priority activities for the next year. Since the impact of the PRS is yet to be effectively measured, staffs believe that high priority should also be given to timely analysis of the recently completed 2008 integrated household survey and the completion of other key surveys in order to update the poverty profile, ensure adequate targeting, and inform future activities.

⁷ In health, the Government's main objectives are to refurbish the sanitation infrastructure, increase the availability of basic health care, reduce infant and maternal mortality, fight endemic diseases, and promote a multisectoral approach to initiatives aiming at combating HIV/AIDS.

28. **Staffs note that the recent increase in the frequency and intensity of natural disasters due to climate change has proven to be a major challenge to sustainable development and economic growth in C.A.R.** Staffs therefore suggest that the government develop an effective and proactive disaster risk management (DRM) framework to help reduce the country's human and economic vulnerability against natural hazards and to strengthen national disaster risk reduction strategies.

IV. CONCLUSION

29. **Staffs consider that the requirement of satisfactory implementation of the PRS for at least a year has been met.** The APR adequately reflects accomplishments and shortcomings in the implementation of the PRS since September 2007. The APR identifies the main obstacles and risks to further progress, which, in addition to specific sector constraints, include (i) the impact of the changing international environment in terms of oil shocks and food and financial crises; (ii) difficulty in mobilizing external resources to finance key activities, in particular the DDR programs; and (iii) inadequate capacity not only to implement the PRS but also to evaluate its impact.

30. **To pursue PRS objectives better and strengthen its implementation the following recommended actions are critical:**

- (i) Keep the macroeconomic and policy framework for the PRS up to date. The current PRS framework might need to be revised in light of availability of financing;
- (ii) Speed up the implementation of the DDR and SSR programs;
- (iii) Share the APR in a timely manner with all relevant stakeholders to receive advice and to provide information on implementation progress in a sequenced manner: a mid-year assessment before the beginning of a new budget cycle would be most useful to strengthen the links between PRSP programs, the MTEF and the annual budgets;
- (iv) Strengthen coordination among all relevant entities to improve the monitoring and reporting systems in order to inform policies and future actions; and
- (v) Finalize the analysis of the household survey and completing other key surveys in order to evaluate the impact of the PRS.

31. **Do Directors agree with staffs' assessment** regarding (i) satisfactory implementation of the PRS; and (ii) on recommended actions critical to strengthening PRS implementation?